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Approved For Release 2004/09/23 : CIA-RDP80R01720R000900100055-8

21 January 1974

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MEMORANDUM FOR:



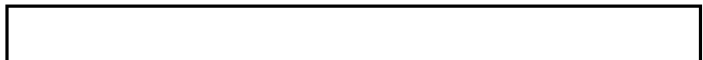
SUBJECT : CIA-DIA Military Costing Review Board

Attached is a package from Hank Knoche which all of you may find of interest and which will impinge to some extent on each of your responsibilities. The more I read about this costing problem the less satisfied I am with present approaches. Unfortunately, not being an economist, I cannot offer better alternatives. One point that clearly bothers Schlesinger (as is evident in Proctor's memorandum recounting their recent session on this subject) also bothers me: we have an essentially free market economy with money as the medium of exchange. Monetary prices also serve us as a kind of universal index into which various forms of economic behavior and priority allocation decisions can be meaningfully translated without undue distortion. The Soviets -- though not pure Marxists by any means -- do not have anything like a free market economy and their internal arrangements are nowhere near as monetized as ours. Hence, quite apart from the obvious difficulty of stating some meaningful exchange equivalent between dollars and rubles, the whole exercise of describing Soviet defense behavior in monetary terms -- the point of any pricing analysis -- is fraught with inherent distortion.

George A. Carver, Jr.
Deputy for National Intelligence Officers

Attachment

Memo to Mr. Knoche from
dated 15 January 1974



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7 January 1974

MEMORANDUM OF UNDERSTANDING

SUBJECT: Establishment of the CIA-DIA Military
Costing Review Board

GENERAL

1. Events of the past twelve months have made it clear that intelligence estimates on Warsaw Pact military spending have become increasingly important to US policy decisions and that they are likely to become even more important in the future. This has made it even more essential than in the past that we develop the best possible spending estimates and coordinate the military costing activities under way in the different agencies. The CIA-DIA Military Costing Review Board is established as of this date with the objective of improving our military cost estimates, effecting a more efficient exploitation of our collection and analytical resources in this area and ensuring the proper use of military cost and expenditure estimates.

MEMBERSHIP

2. The Board consists of five members. The Chairman and two members are designated by the Director of Strategic Research, CIA; two members are designated by the Deputy Director for Intelligence, DIA. CIA is responsible for providing the Secretariat. The Board is authorized to appoint working groups as it sees fit.

RESPONSIBILITIES

3. The Board is charged with the following responsibilities:

- a. Establishing and maintaining a Joint Data Bank of military price data and costing methodologies.
- b. Reviewing all entries into the Joint Data Bank.
- c. Coordinating all research activities, including external contracts, on military pricing methodologies to ensure that all resources are being exploited, that research standards are rigorous and procedures consistent, and that both agencies have opportunity for joint participation where desirable.
- d. Coordinating collection activities related to military costing matters.

4. CIA will continue to operate its Strategic Cost Analysis Model (SCAM) as a service of common concern and will provide the output to DIA on a regular basis. The Board will review the use of SCAM data to ensure consistency in concepts and methods and identify and correct, to the extent possible, any misapplication of cost and expenditure analysis.

5. The Board will consult regularly with CIA's Military Economic Advisory Panel to obtain the benefit of its review and advice.

6. The Board will prepare an annual report for the Deputy Directors for Intelligence, CIA and DIA, on accomplishments and problems in the area of military costing.

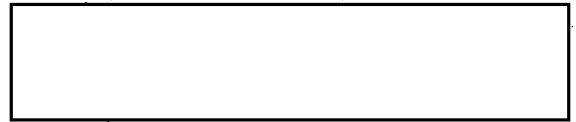
MEETINGS

6. The Board will meet on a regular monthly basis. Ad hoc meetings may be called at the request of any Board member.

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E. H. KNOCHE
Director, Strategic Research
Central Intelligence Agency



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Deputy Director for Intelligence
Defense Intelligence Agency

15 JAN 1974